



State of Tennessee Indebtedness Report

Justin P. Wilson, Comptroller

June 30, 2018



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

August 17, 2018

The Honorable Bill Haslam, Governor
The Honorable Randy McNally, Lieutenant Governor
The Honorable Beth Harwell, Speaker of the House of Representatives
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

The semi-annual State Indebtedness Report of the State of Tennessee is presented to provide updated information on the four state debt issuers: The State Funding Board for Tennessee's General Obligation Debt, the Tennessee Local Development Authority, the Tennessee State School Bond Authority and the Tennessee Housing Development Agency. The report compares outstanding indebtedness at December 31, 2017, and at June 30, 2018. It also includes information on authorized and unissued debt and credit ratings for each debt issuer. Finally, the report presents information on the loan programs administered by the Office of State and Local Finance: the Clean Water State Revolving Fund, the Drinking Water State Revolving Fund, the Energy Efficient Schools Initiative and the State Infrastructure Fund.

We appreciate the commitment of the members of the State Funding Board, the Tennessee Local Development Authority, the Tennessee State School Bond Authority, and the Bond Finance Committee of the Tennessee Housing Development Agency and thank them for their help and support of the debt issuance and management process. We also thank our staff in the Office of State and Local Finance and the Tennessee Housing Development Agency for their constant attention to the details of these important financing programs.

Respectfully submitted,

A handwritten signature in blue ink that reads "Justin P. Wilson".

Justin P. Wilson
Comptroller of the Treasury

C: Senate Finance, Ways and Means Committee
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The Honorable John Stevens, 1st Vice-Chair
The Honorable Joey Hensley, 2nd Vice-Chair

House Finance, Ways and Means Committee
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The Honorable Kevin Brooks, Vice-Chair
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The Honorable Ken Yager, Chair
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Tennessee Debt Issuers

State Funding Board (SFB)

The SFB has responsibility for issuing all State general obligation bonds and notes authorized by the General Assembly. The State utilizes general obligation commercial paper to short-term finance its capital projects during the construction period. As projects are completed, this commercial paper is repaid with the proceeds from the issuance of long-term debt (general obligation bonds.) The SFB debt management policy is located at: <http://www.comptroller.tn.gov/sl/policy.asp>

Tennessee State School Bond Authority (TSSBA)

The TSSBA debt management policy is located at: <http://www.comptroller.tn.gov/sl/policy.asp>

Higher Educational Facilities Bond Program

The TSSBA is delegated the responsibility for issuing bonds and notes to provide funds:

- to make loans to state institutions of higher learning to construct revenue-generating facilities, and
- to make funds available to the Tennessee Student Assistance Corporation for student loans under the Guaranteed Student Loan Program.

The TSSBA utilizes a revolving credit facility to short-term finance projects during the construction period. As projects are completed, the facility is repaid with the proceeds from the issuance of long-term debt (Higher Educational Facilities Program bonds).

Qualified Zone Academy Bond Program (QZAB)

The QZAB program is a federal tax credit program created under Section 226 of the Taxpayer's Relief Act of 1997. The proceeds of the QZABs were used to make loans to local governments for certain educational projects. Security for the QZABs is the general obligation pledge of the local government borrowers. The program is enhanced by the intercept of the local governments' state-shared taxes. There is no cross default to the Higher Educational Facilities Bond Program.

Qualified School Construction Bond Program (QSCB)

The QSCB program is a federal tax credit (2009) /federal direct subsidy (2010) program established through the American Recovery and Reinvestment Act of 2009 (ARRA). The proceeds of the 2009 and 2010 QSCBs were used to make loans to local governments for certain qualified school construction projects. The TSSBA issued all of the QSCB bonds allocated under ARRA, so no additional debt will be issued for this program. Security for the QSCBs is the general obligation pledge of the local government borrowers. The program is enhanced by the intercept of the local governments' state-shared taxes. There is no cross default to the Higher Educational Facilities Bond Program.

Tennessee Local Development Authority (TLDA)

The TLDA debt management policy is located at: <http://www.comptroller.tn.gov/sl/policy.asp>.

Tennessee Local Development Authority Bond Programs

The TLDA has the responsibility for issuing its debt obligations to provide funds for the following purposes:

- to make loans to local governments for the financing of construction and improvements for water and sewer systems;
- to make loans to local governments for the financing of certain capital projects;
- to make loans to certain small business concerns for pollution control facilities;
- to make loans to farmers for certain capital improvements;
- to make loans to counties for the acquisition of equipment for use by county or volunteer fire departments serving unincorporated areas of the counties;
- to make loans to airport authorities and municipal airports; and
- to make loans under the Community Provider Program to mental health institutes and substance abuse facilities.

Tennessee Housing Development Agency (THDA)

THDA provides mortgage loan products at competitive interest rates to lower and moderate income persons and families in order to create safe, sound, and affordable housing opportunities across the State. The Bond Finance Committee of the THDA Board of Directors is responsible for overseeing THDA debt issuance. THDA has issued debt pursuant to the following four (4) general resolutions: the Housing Bond Resolution (Mortgage Finance Program) (the "1974 General Resolution"), the Homeownership Program Resolution (the "1985 General Resolution"), the Housing Finance Program Resolution (the "2009 General Resolution"), and the General Residential Finance Program Bond Resolution (the "2013 General Resolution"). No debt is currently outstanding under the 1974 General Resolution. THDA is currently issuing debt only under the 2013 General Resolution. The 2013 General Resolution does not carry the moral obligation pledge of the State. The THDA debt management policy is located at: <http://www.comptroller.tn.gov/sl/policy.asp>

State of Tennessee Indebtedness Report

(Unaudited)

	<u>As of December 31, 2017</u>		<u>As of June 30, 2018</u>		<u>Variance</u> <u>Increase (Decrease)</u>	
	<u>Number of Loans / Projects</u>	<u>Debt Outstanding</u>	<u>Number of Loans / Projects</u>	<u>Debt Outstanding</u>	<u>Number of Loans / Projects</u>	<u>Debt Outstanding</u>
<u>Long-term General Obligation Debt</u>						
General Obligation Bonds Outstanding	1,837	\$ 1,778,290,000	1,874	\$ 1,897,795,000	37	\$ 119,505,000
<u>General Obligation Commercial Paper</u>						
Tax-Exempt	107	\$ 193,513,000	70	\$ 118,513,000	(37)	\$ (75,000,000)
Taxable	4	26,663,000	5	46,663,000	1	20,000,000
Total Commercial Paper Outstanding	111	\$ 220,176,000	75	\$ 165,176,000	(36)	\$ (55,000,000)
<u>Tennessee State School Bond Authority</u>						
Higher Education Facilities Program						
Bonds Outstanding	193	\$ 1,591,590,000	188	\$ 1,568,880,000	(5)	\$ (22,710,000)
Revolving Credit Facility (RCF) Outstanding:						
Tax-Exempt	27	\$ 69,870,716	23	\$ 60,569,132	(4)	\$ (9,301,584)
Taxable	13	7,521,391	18	34,730,169	5	27,208,778
Total Revolving Credit Facility ¹⁾	40	\$ 77,392,107	41	\$ 95,299,301	1	\$ 17,907,194
Qualified Zone Academy Bond Program						
Bonds Outstanding	13	\$ 32,590,000	13	\$ 32,590,000	-	\$ -
Qualified School Construction Bonds						
Series 2009	13	\$ 177,000,000	13	\$ 177,000,000	-	\$ -
Series 2010	15	\$ 212,440,000	15	\$ 212,440,000	-	\$ -
<u>Tennessee Local Development Authority</u>						
Bonds Issued and Outstanding	12	\$ 3,050,000	10	\$ 2,465,000	(2)	\$ (585,000)
<u>Tennessee Housing Development Agency</u>						
Mortgage Loans / Principal Outstanding	22,745	\$ 1,967,035,000	23,546	\$ 2,089,025,000	801	\$ 121,990,000
Total State Indebtedness:		<u>\$ 6,059,563,107</u>		<u>\$ 6,240,670,301</u>		<u>\$ 181,107,194</u>

Footnotes:

1) As of June 30, 2018, there were three projects that had been funded with both taxable and tax-exempt proceeds from the RCF.

Authorized/Unissued Debt

	(Unaudited)		Variance
	<u>As of December 31, 2017</u>	<u>As of June 30, 2018</u>	<u>Increase (Decrease)</u>
General Obligation ¹⁾	\$ 1,318,856,040	\$ 1,324,549,553	\$ 5,693,513
Tennessee State School Bond Authority (TSSBA)	\$ 443,272,614 ²⁾	\$ 483,553,693 ²⁾	\$ 40,281,079
Tennessee Local Development Authority (TLDA)	\$ 305,000,000 ³⁾	\$ 305,000,000 ³⁾	\$ -
TLDA Capital Projects	\$ 75,000,000	\$ 75,000,000	\$ -
Tennessee Housing Development Agency (THDA)	\$ 962,965,000 ³⁾	\$ 840,975,000 ³⁾	\$ (121,990,000)
Total Authorized/Unissued Debt	<u>\$ 3,105,093,654</u>	<u>\$ 3,029,078,246</u>	<u>\$ (76,015,408)</u>

Footnotes:

1)	Authorized and Unissued as of 6/30/17	\$ 1,413,636,040	A/U 12/31/17	\$ 1,318,856,040	\$ (94,780,000)
	Less: Canceled 2017/2018	(94,780,000)		(29,601,487)	\$ 65,178,513
	Less: Bonds Issued 2018A			(180,000,000) *	\$ (180,000,000)
	New Bond Authorization 2018-2019	-		215,295,000	\$ 215,295,000
	Authorized and Unissued as of 12/31/17	<u>\$ 1,318,856,040</u>	A/U 6/30/18	<u>\$ 1,324,549,553</u>	<u>\$ 5,693,513</u>
	TDOT Bond Authorization:	\$ 639,000,000		\$ 639,000,000	\$ -
	TDOT Bond Authorization - Bridges	87,900,000		58,800,000	\$ (29,100,000)
	Capital Projects Bond Authorization:	591,956,040		626,749,553	\$ 34,793,513
		<u>\$ 1,318,856,040</u>		<u>\$ 1,324,549,553</u>	<u>\$ 5,693,513</u>

* Issuance of bond proceeds in the par amount of \$154,355,000 plus a premium of \$25,645,000

2) Amount indicated is capital projects approved by the TSSBA and the State Building Commission.

3) Amount indicated is the unissued remaining statutory debt limit.

Change in Debt Outstanding from Prior Period

General Obligation Debt

- During the period from December 31, 2017 to June 30, 2018, the increase of \$119,505,000 in bonds outstanding was comprised of the following:
 - Bond principal matured in the amount of \$33,130,000
 - The 2018 Series A tax-exempt bonds were issued in the par amount of \$154,355,000
 - The 2018 Series B refunding tax-exempt bonds were issued in the par amount of \$35,415,000. The Series B bonds refunded general obligation bonds totaling \$37,135,000.
- The decrease of \$55,000,000 in commercial paper outstanding was comprised of two new commercial paper issuances totaling \$65,000,000 and repayments totaling \$120,000,000.
- Bonds were authorized in the amount of \$215,295,000 and bond authorizations were canceled in the amount of \$29,601,487.

Tennessee State School Bond Authority (TSSBA)

Higher Education Facilities Program

- Bond principal matured in the amount of \$22,710,000 during the period.
- The revolving credit facility loans outstanding increased by \$17,907,194, comprised of draws on the facility in the amount of \$28,000,000 and payoffs in the amount of \$10,092,806.

Qualified Zone Academy Bond Program (QZAB)

- As of June 30, 2018, the fund balance amount, held in the pledged sinking fund accounts available to repay the bonds, is \$27,332,434.

Qualified School Construction Bond Program (QSCB)

- As of June 30, 2018, the fund balance held in the pledged sinking fund accounts available to repay the QSCBs totaled \$176,098,188.

Tennessee Local Development Authority (TLDA)

- Bond principal matured in the amount \$585,000 during the period.

Tennessee Housing Development Agency (THDA)

- Bond principal outstanding increased by \$121,990,000 during the period. The increase was a combination of:
 - New bonds issued under the 2013 General Resolution in the original principal amount of \$259,900,000, and
 - Bonds that matured, or were redeemed in accordance with their terms, in the principal amount of \$137,910,000.

Bond Ratings by Program

	<u>Fitch</u>	<u>Moody's</u>	<u>S&P</u>
State of Tennessee	AAA	Aaa	AAA ¹
Tennessee State School Bond Authority (TSSBA)	AA+	Aa1 ³	AA+ ⁴
TSSBA, Qualified School Construction Bonds (QSCB) Series 2009 (Tax Credit Bonds)	n/a	Aa1 ³	AA+ ¹
TSSBA, Qualified School Construction Bonds (QSCB) Series 2010 (Federally Taxable – Direct Subsidy Payment)	AA	Aa1 ³	AA+ ¹
Tennessee Local Development Authority (TLDA)	AA	n/a ²	AA+
Tennessee Housing Development Authority (THDA) 1985 Resolution	n/a	Aa1	AA+
THDA 2009 Resolution (Single Family New Issue Bond Program)	n/a	Aa2	n/a
THDA 2013 Resolution	n/a	Aa1	AA+

1 On May 26, 2016, S&P Global Ratings upgraded the State of Tennessee's bond rating from AA+ to AAA. On the same date, S&P Global Ratings upgraded the TSSBA's Qualified School Construction Bonds Series 2009 and 2010 from AA to AA+, following the upgrade of the State.

2 On September 18, 2015, Moody's Investors Services Inc. downgraded the Authority's bond rating from Aa3 to A2. On November 13, 2015, Moody's Investors Service Inc. withdrew the Authority's A2 rating.

3 Explanation of Moody's Investors Services Inc. Ratings:

The ratings for these bonds are analyzed under the pre-default enhanced credit program by Moody's Rating Services. Moody's assigns separate ratings for the program and for each series of bonds issued under the program.

Tennessee State School Bond Authority (TSSBA)

Programmatic rating - Aa1

Financing rating - Aa1

TSSBA, Qualified School Construction Bonds (QSCB), Series 2009 (Tax Credit Bonds)

Programmatic rating - Aa1

Financing rating - Aa2

TSSBA, Qualified School Construction Bonds (QSCB), Series 2010

Programmatic rating - Aa1

Financing rating - Aa2

4 On July 27, 2016, S&P Global Ratings upgraded the TSSBA's Higher Education Bonds from AA to AA+.

Annual Debt Service for State of Tennessee General Obligation Bonds

as of June 30, 2018
(Unaudited)

	PRINCIPAL	INTEREST	DEBT SERVICE REQUIRED
FY 2019	159,180,000	78,918,281	238,098,281
FY 2020	155,765,000	74,211,953	229,976,953
FY 2021	149,000,000	67,196,873	216,196,873
FY 2022	149,305,000	60,260,530	209,565,530
FY 2023	141,345,000	53,493,143	194,838,143
FY 2024	138,690,000	47,545,135	186,235,135
FY 2025	131,535,000	42,072,058	173,607,058
FY 2026	129,325,000	36,542,110	165,867,110
FY 2027	122,270,000	31,254,688	153,524,688
FY 2028	117,480,000	26,261,709	143,741,709
FY 2029	108,995,000	21,352,030	130,347,030
FY 2030	84,645,000	16,965,337	101,610,337
FY 2031	73,500,000	13,301,920	86,801,920
FY 2032	65,625,000	10,108,938	75,733,938
FY 2033	43,370,000	7,595,375	50,965,375
FY 2034	36,365,000	5,672,000	42,037,000
FY 2035	36,365,000	3,853,750	40,218,750
FY 2036	30,815,000	2,174,250	32,989,250
FY 2037	16,505,000	991,250	17,496,250
FY 2038	<u>7,715,000</u>	<u>385,750</u>	<u>8,100,750</u>
	<u>\$ 1,897,795,000</u>	<u>\$ 600,157,078</u>	<u>\$ 2,497,952,078</u>

Note: New money general obligation debt is issued and structured as 20-year, level principal, fixed interest rate bonds.

Tennessee Loan Programs

State Revolving Fund (SRF) Loan Programs

The TLDA, in conjunction with the Department of Environment and Conservation, administers the Clean Water and Drinking Water SRF Loan Programs, which make loans to local governments for sewer and safe drinking water projects. The TLDA does not issue debt to finance these loans. The programs are funded by federal capitalization grants and state appropriations. Therefore, the dollar amount of loans managed for the SRF Loan Programs is not included in the Total State Indebtedness.

Clean Water State Revolving Fund (CWSRF)

The Clean Water SRF Loan Program was established pursuant to the Federal Clean Water Act as amended by the Water Quality Act of 1987 and the State Wastewater Facilities Act of 1987.

Drinking Water State Revolving Fund (DWSRF)

The Drinking Water SRF was established pursuant to the Federal Safe Drinking Water Act and the State Drinking Water Revolving Loan Fund Act of 1997.

State Infrastructure Fund (SIF) Loan Program

The TLDA is also responsible for approving loans to local governments from the SIF for the construction of transportation infrastructure (street, highway, bridge, tunnel and any related roadway facilities) projects that provide public benefits by enhancing mobility or safety, promoting economic development, or increasing the quality of life and general welfare of the public. The TLDA administers the SIF program in conjunction with the Department of Transportation. The TLDA cannot issue debt to finance these loans. Therefore, the dollar amount of loans managed for the SIF Loan Programs is not included in the Total State Indebtedness.

Energy Efficient Schools Initiative (EESI) Loan Program

The EESI Program was established by the Tennessee General Assembly in 2008 with \$90 million. The enabling legislation also created a twelve-member council, the Energy Efficient Schools Council, to approve guidelines, award grants and loans, verify energy efficiencies, and establish and support energy management programs. The EESI grants and loans provide funding for capital outlay projects to improve the energy efficiency in Tennessee's public K-12 schools. The Energy Efficient Schools Council contracts with the Office of State and Local Finance for the administration of these loans. No debt is issued in the capital marketplace; therefore, the dollar amount of loans managed for the EESI Loan Programs is not included in the Total State Indebtedness.

Loan Programs Administered by the Office of State and Local Finance

(Unaudited)

	<u>As of December 31, 2017</u>		<u>As of June 30, 2018</u>		<u>Variance Increase (Decrease)</u>	
	<u>Number of Loans / Projects</u>	<u>Loans Outstanding</u>	<u>Number of Loans / Projects</u>	<u>Loans Outstanding</u>	<u>Number of Loans / Projects</u>	<u>Loans Outstanding</u>
<u>State Revolving Fund Loan Program</u>						
Clean Water (Sewerage)						
Principal Outstanding	205	\$ 599,688,489	219	\$ 625,362,475	14	\$ 25,673,986
Drinking Water						
Principal Outstanding	133	135,919,566	135	133,727,721	2	\$ (2,191,845)
<u>State Infrastructure Fund (SIF)</u>	1	\$ 566,893	1	\$ 1,126,396	-	\$ 559,503
<u>Energy Efficient Schools Initiative (EESI)</u>	62	46,229,244	67	53,737,573	5	\$ 7,508,329

Change in Loans Outstanding from Prior Period

State Revolving Fund Loan Programs

Clean Water State Revolving Fund (CWSRF)

- From December 31, 2017 through June 30, 2018, the loan balance increased \$25.6 million. Twenty new loans were added to the program, and six loans were paid in full. During this time, approximately \$18.0 million in loan repayments were received and approximately \$43.6 million was disbursed to borrowers.

Drinking Water State Revolving Fund (DWSRF)

- During this period, the loan balance decreased \$2.2 million. Eight new loans were added to the program, and six loans were paid in full. During this time, approximately \$7.1 million in loan repayments were received and approximately \$4.9 million was disbursed to borrowers.

State Infrastructure Fund (SIF)

- During this period, disbursements totaling approximately \$559,503 were made to the only borrower.

Energy Efficient Schools Initiative (EESI)

- During this period, the loan balance increased approximately \$7.5 million. Approximately \$3.3 million in loan repayments were received and approximately \$10.8 million was disbursed to borrowers.

Board Membership

State Funding Board

Governor Bill Haslam, Chairman
Comptroller Justin P. Wilson, Secretary
Secretary of State Tre Hargett
State Treasurer David H. Lillard, Jr.
Larry Martin, Commissioner of Finance and Administration

Tennessee State School Bond Authority

Governor Bill Haslam, Chairman
Comptroller Justin P. Wilson, Secretary
Secretary of State Tre Hargett
State Treasurer David H. Lillard, Jr.
Larry Martin, Commissioner of Finance and Administration
Dr. Joseph DiPietro, President, University of Tennessee
Dr. Flora Tydings, Chancellor, Tennessee Board of Regents

Tennessee Local Development Authority

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Secretary of State Tre Hargett, Vice-Chairman
Comptroller Justin P. Wilson, Secretary
State Treasurer David H. Lillard, Jr.
Larry Martin, Commissioner of Finance and Administration
Pat Wolfe, Washington County, Tennessee, Senate Appointee
Dr. Kenneth Moore, Franklin, Tennessee, House Appointee

Tennessee Housing Development Agency

Bond Finance Committee

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Secretary of State Tre Hargett
State Treasurer David H. Lillard, Jr.
Larry Martin, Commissioner of Finance and Administration

ACKNOWLEDGMENTS

Office of State and Local Finance

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Cindy Liddell

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Tennessee Housing Development Agency

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